

Internal Revenue Service

Department of the Treasury
Washington, DC 20224

Number: **201126020**
Release Date: 7/1/2011

Third Party Communication: None
Date of Communication: Not Applicable
Person To Contact:
, ID No.

Index Number: 150.04-00

Telephone Number:

Refer Reply To:
CC:FIP:B05
PLR-148079-10
Date:
March 21, 2011

LEGEND

Bonds =

Date 1 =

Date 2 =

Date 3 =

Date 4 =

Entity =

Issuer =

Year 1 =

Dear :

This is in response to your request for a ruling that Issuer's proposed actions to cease status as a qualified scholarship funding corporation under § 150(d)(2) of the Internal Revenue Code (the "Code") will not cause the interest on the Bonds to fail to be excludable from gross income under § 103.

Facts and Representations

Issuer represents that it has been a corporation described in § 150(d)(2) since Year 1 and an organization described in § 501(c)(3) and exempt from federal income tax under § 501(a) since Date 1, both dates being prior to the issuance of the Bonds.

Issuer issued the Bonds on Dates 2 and 3 and was the obligor on the Bonds in that status for the duration of time the Bonds were outstanding. Using cash from the sale of some student loans and a line of credit from Entity, a not-for-profit corporation and Issuer's parent and sole member, Issuer fully redeemed the Bonds by Date 4. Following retirement of the Bonds, Issuer had no outstanding tax-exempt bonds.

Issuer proposes to amend its articles of incorporation and bylaws to expand its charitable purposes as a § 501(c)(3) organization to do more than exclusively acquire student loan notes incurred under the Higher Education Act of 1965. Issuer also represents that it will not issue any tax-exempt bonds in the future.

Law and Analysis

Section 103(a) provides, with exceptions, that gross income does not include interest on any State or local bond.

Section 150(d)(1) provides that a "qualified scholarship funding bond" is treated as a State or local bond.

Section 150(d)(2) provides that the term "qualified scholarship funding bond" means a bond issued by a corporation which –

(A) is a corporation not for profit established and operated exclusively for the purpose of acquiring student loan notes incurred under the Higher Education Act of 1965, and

(B) is organized at the request of the State or 1 or more political subdivisions thereof or is requested to exercise such power by 1 or more political subdivisions and required by its corporate charter and bylaws, or required by State law, to devote any income (after payment of expenses, debt service, and the creation of reserves for the same) to the purchase of additional student loan notes or to pay over any income to the United States.

Section 150(d)(3)(A) provides that any qualified scholarship funding bond, and qualified student loan bond, outstanding on the date of the issuer's election under that section (and any bond (or series of bonds) issued to refund such a bond) shall not fail to be a tax-exempt bond solely because the issuer ceases to be a corporation described in

§ 150(d)(2) if the issuer meets the requirements of subparagraphs (B) and (C) of that section.

The requirements of § 150(d)(3)(B) are met by an issuer if –

(i) all of the student loan notes of the issuer and other assets pledged to secure the repayment of qualified scholarship funding bond indebtedness of the issuer are transferred to another corporation within a reasonable period after the election is made;

(ii) such transferee corporation assumes or otherwise provides for the payment of all of the qualified scholarship funding bond indebtedness of the issuer within a reasonable period after the election is made;

(iii) to the extent permitted by law, such transferee corporation assumes all of the responsibilities, and succeeds to all of the rights, of the issuer under the issuer's agreements with the Secretary of Education in respect of student loans;

(iv) immediately after such transfer, the issuer, together with any other issuer which has made an election under § 150(d)(3) in respect of such transferee, hold all of the senior stock in such transferee corporation; and

(v) such transferee corporation is not exempt from tax under that chapter.

The requirements of § 150(d)(3)(C) are met by an issuer if, within a reasonable period after the transfer referred to in § 150(d)(3)(B) –

(i) the issuer is described in § 501(c)(3) and exempt from tax under § 501(a);

(ii) the issuer no longer is described in § 150(d)(2)(A) and (B); and

(iii) at least 80 percent of the members of the board of directors of the issuer are independent members.

As described above, Issuer's proposed actions will result in its ceasing to operate as a qualified scholarship funding corporation described under § 150(d)(2). When an issuer has outstanding tax-exempt bonds, it may make an election to cease status as a qualified scholarship funding corporation under § 150(d)(3), in which case, it must follow the requirements described in § 150(d)(3). The purpose of § 150(d)(3) is to preserve the tax-exempt status of an issuer's qualified scholarship funding bonds, and qualified student loan bonds, outstanding on the date of an issuer's election (and any bond (or series of bonds) issued to refund such bonds), despite the loss of an issuer's status as a qualified scholarship funding corporation.

In this instance, Issuer proposes to cease operating as a qualified scholarship funding corporation described under § 150(d)(2), but it has redeemed all its Bonds. Therefore, § 150(d)(3) is not applicable. Regardless, because Issuer represents that it was a corporation described under § 150(d)(2) at the time the Bonds were issued and for the entire time the Bonds were outstanding throughout which time it remained the obligor, Issuer's proposed actions will not cause the interest on the Bonds to fail to be excludable from gross income under § 103.

Conclusion

Based on the information submitted and representations made, we conclude that Issuer's proposed actions will not cause the interest on the Bonds to fail to be excludable from gross income under § 103.

The ruling contained in this letter is based upon information and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. While this office has not verified any of the material submitted in support of the request for rulings, it is subject to verification on examination.

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any transaction or item discussed or referenced in this letter. Except as specifically stated in this ruling, we express no opinion whether the interest on the Bonds is excludable from gross income under § 103. We also express no opinion whether Issuer will continue to be an organization described in § 501(c)(3) and exempt from federal income tax under § 501(a).

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) provides that it may not be used or cited as precedent.

In accordance with a Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative.

Sincerely,

Associate Chief Counsel
(Financial Institutions and Products)

By:

Vicky Tsilas
Assistant to the Branch Chief
Branch 5

cc: